

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2002-483

March 14, 2003

NORTHERN UTILITIES, INC. – MAINE
Proposed Cost of Gas Factor
November 2002 through April 2003

ORDER APPROVING
MID-COURSE
CORRECTION

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We allow Northern Utilities, Inc. (Northern) to put into effect a mid-course correction of \$0.112 per ccf to take effect March 15, 2003. In addition, we require Northern to make a proposal regarding the collection of a portion of the Winter 2002-2003 under-collection for recovery in the 2003 Summer period.

II. PROCEDURAL HISTORY

In early February 2003, the Staff had informal discussions with Northern about the effect of the increases occurring in the gas commodity market during the winter season. At that time, Northern decided that a mid-course correction would not be necessary in large part because the amount of physical storage maintained by Northern insulated ratepayers from the commodity cost price increases. However, cold weather has drawn down Northern's stored gas, and market prices for natural gas commodity have continued to increase, with the most drastic increases during the last week of February. Northern's current cost of gas factor (CGF) does not adequately reflect the higher spot market prices that it is now paying to meet its supply requirements. These circumstances are causing a large under-collection of gas costs from Northern's ratepayers. Northern noted that many LDC's in Massachusetts and New Hampshire have already made similar adjustments to their gas rates.

On March 6, 2003, Northern, the Office of the Public Advocate (OPA) and Staff had an informal discussion to determine whether Northern should file a mid-course adjustment to its cost of gas factor this late in the winter period and also what to do about the under-collection that will accumulate by the season's end.

In this discussion, Staff, the Company and the OPA concurred that a gas rate adjustment for the remainder of the winter season is warranted. Accordingly, on March 7, 2003, pursuant to 35-A M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed mid-course correction for the Winter 2002 - 2003 gas usage period, to take effect on March 15, 2003.

On March 7, 2003, the Commission issued a press release notifying customers of the proposed change and giving them an opportunity to appeal this decision prior to

rates being placed into effect. The Commission also posted a legal notice in newspapers of general circulation in Northern's service area.

On March 13, 2003, the OPA filed comments on Northern's proposal.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in this proceeding.

IV. DISCUSSION AND RECOMMENDATIONS

In the recent months, the price of natural gas has risen over the prices projected at the time Northern calculated its Winter 2002-2003 cost of gas rates. For example, the NYMEX futures prices for March and April used to set Northern's rates have, on average, doubled since October. As a result, Northern's gas costs for the winter season have increased and the Company currently projects an under-collection of approximately \$2.5 million for the winter period if rates remain at the current level. This under-collection is slightly more than double the under-collection that is in the current rate.

In order to mitigate the under-collection, Northern is proposing to add an additional \$0.112 per ccf to all customers rates for the remaining weeks of the winter period. By doing this, Northern hopes to reduce the amount of the under-collection to approximately \$1.8 million. Northern calculated the surcharge by determining what residential rates would be by using the NYMEX prices for March and April, divided by the estimated usage for March and April. It then deducted the current rate to reach the amount of increase necessary. Northern states that the mid-course correction would result in a 6.9% rate increase for the average residential customer for the remaining winter period.

Based upon the OPA's comments and its discussions with staff, Northern has agreed to include the following message on bills that include the changed rate:

For gas consumption from Mar 15-Apr 30 the gas component of your rates has increased to \$X.XXXX per ccf due to recent increases in gas prices that Northern must pay.¹ The Commission will consider including additional costs that won't be collected this winter in Summer 2003 rates.

Under normal circumstances, it is appropriate to give ratepayers relatively long advance notice of changes in their rates. However, given the current market conditions and projections for continued high gas prices through the upcoming summer and winter seasons, we feel that it is of greater importance to reflect the higher rates consistent

¹ This rate will differ by customer class.

with the market conditions causing them. This will serve two purposes: to send appropriate price signals to all ratepayers of the actual costs associated with providing them service and reduce the amount of under-collection that will be carried forward to future periods, an amount that will further burden ratepayers already facing higher gas costs. The bill message will explain to customers the reasons for this change in rates. In addition, Northern should provide its call center staff with enough information for them to be able to adequately explain the need for the change to their customers.

Regarding the remaining under-collection, our policy has been to recover winter period under-collections in the next winter period, avoiding overlaps in summer and winter season rates where possible. However, we may determine, based on the circumstances, that variance from this policy is warranted if it will assist in a smoother recovery or serves other beneficial purpose. Given the magnitude of the under-collection coupled with the fact that predictions indicate that the cost of the gas commodity will remain high for the next two cost of gas periods, we feel it is appropriate to consider alternative recovery proposals, including the possibility of collecting some part of this under-collection over the Summer 2003 period.² We direct Northern to prepare a proposal for recovery of the Winter 2002-2003 under-collection for discussion in the next few weeks so that adjustments can be made in its pending Summer 2003 filing for summer period recovery if necessary.

In its comments the OPA recommended that the Commission require Northern to provide the following specific information in any proposal that it makes:

1. The percentage of Northern's customers who are non-heating customers.
2. The typical dollar cost and percentage increases to the monthly bills of non-heating customers that would result from Northern's proposal.
3. The number of customers who use gas only in the summer period.

We agree that this information will be useful to the Commission and its staff in evaluating Northern's proposals and therefore, require Northern to provide this information in Docket 2003-104.

² Northern has filed its proposed 2003 Summer CGF and the Commission is reviewing this in Docket No. 2003-104. A preliminary hearing has been scheduled for March 27, 2003 at 1:30 p.m.

IV. CONCLUSION

Based upon the current situation, we approve Northern's request to increase its Winter CGF rate for all customer classes and therefore, we

O R D E R

1. That Northern's Forty-first Revised Sheet No. 20.1 filed on March 7, 2003 is approved for effect on March 15, 2003;
2. That Northern include a message notifying customers of the change on the first bill including this rate;
3. That Northern ensure that its consumer call center has ample information to answer ratepayers' questions on this change;
4. That Northern will propose alternatives for recovering the Winter 2002-2003 undercollection, including the possibility of including a portion of it in the rates set for the Summer 2003 period, in Docket No. 2003-104; and
5. That Northern provide responses to the questions outlined in the body of this order in its proposal for recovery of the Winter 2002-2003 undercollection in Summer 2003 rates.

Dated at Augusta, Maine, this 14th day of March, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent

COMMISSIONER ABSENT: Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.